

BEYOND ENERGY BOUNDARIES **05**
annual report





Robb D. Thompson – President and CEO

For Dynetek, maximizing growth while managing risks and minimizing costs is our strength. We have aligned our business in a commercially sustainable way to support our year on year growth with strategic choices that will drive our organic growth in a disciplined cost conscious fashion. We believe our commitment to our strategic plan through our CNG and hydrogen lines of business will take the Company **beyond energy boundaries** of traditional energy solutions and will support our creation of near term and long term value for our shareholders.

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DYNETEK INDUSTRIES LTD. IS A LEADER IN THE DESIGN,
MANUFACTURING AND MARKETING OF PROPRIETARY FUEL STORAGE
CYLINDERS AND SYSTEMS, PRIMARILY FOR COMPRESSED NATURAL GAS,
HYDROGEN AND OTHER INDUSTRIAL COMPRESSED GASES.

FINANCIAL HIGHLIGHTS

(thousands of Canadian dollars, except share capital and per share data)

December 31	2005	2004	2003
Revenue			
Cylinder and system sales	23,521	22,214	16,348
Research and development income	2,841	4,249	4,044
Investment and other income	397	128	441
	26,759	26,591	20,833
Net loss	(2,445)	(1,239)	(4,888)
Net loss per common share (basic and fully diluted)	(0.12)	(0.06)	(0.24)
EBITDA ¹	1,171	1,187	(1,896)
Cash flow from operations (deficiency)	2,040	(3,323)	(6,783)
Capital expenditures	1,588	1,737	3,376
Cash and cash equivalents	2,809	4,139	9,831
Non-cash working capital ²	12,345	14,020	9,721
Total assets	44,211	45,767	45,407
Long-term debt	1,341	1,667	1,753
Common shares outstanding	20,939,701	20,547,232	20,120,395
Weighted average common shares outstanding	20,793,601	20,248,579	20,120,395

¹ Earnings before interest, taxes, stock based compensation, non-cash foreign exchange, depreciation and amortization (EBITDA) is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes EBITDA is a useful measure to assist in the assessment of Dynetek's ability to generate cash flows from its operations.

² Non-cash working capital is current assets after cash less current liabilities.

LETTER TO SHAREHOLDERS & EMPLOYEES

2005 was a year of financial gains, a year of strategic achievements and a year of operational challenges.

By the end of 2005 we achieved positive EBITDA¹ for the eighth consecutive quarter. This outcome resulted from increased global sales, reduced production costs and continued financial discipline related to our marketing and general administration costs, which continue to reduce as a percentage of revenue. We continue to drive towards reporting ongoing positive cash flow per share. Our shareholders should be rest assured that financial growth and profitability through commercial sustainability continues to be our first priority.

The Company continued to demonstrate to the market place its growth story with increased cylinder and system sales. In fact, Dynetek revenues have grown approximately 300% over the last four years. During this four-year period the Company invested significant funds in capital equipment, global expansion, working capital and research and development to attain this positive position and in doing so, with the funds available.

The Company is committed to this strategy and delivering improved financial performance in 2006. Our top priorities for 2006 include:

- ◆ Revenue growth through product diversification and increased global customer base
- ◆ Improved gross profit by improving raw material input costs; and
- ◆ Bottom line improvement by maintaining our strategic focus, continued discipline on our controllable costs and be selective of our ever increasing sales opportunities.

2005 Strategic Achievements

During 2005, Dynetek made significant strategic advances including:

- ◆ Achieving KHK (Japan) and TUV (European) certification of our 700bar (10000psi) cylinder solution, which helps bring hydrogen vehicles the necessary range to compete with gasoline powered internal combustion engines;
- ◆ Contracted to supply Natural Gas Bulk Transport (BT) modules to be used to transport compressed natural gas (CNG). Dynetek's lightweight BT modules are ideally suited for transportation on trucks for land distribution, or on barges to supply CNG inland or to coastal locations where pipeline infrastructure is not yet established. The advantages of using Dynetek's lightweight cylinders in the bulk transport of compressed natural gas increases the amount of gas transported with each load by 2 to 3 times the capacity, versus that of a conventional steel tube trailer; and
- ◆ Successful design, manufacturing and integration of compressed natural gas storage solutions for buses in South America. Our light weight solution was found to be superior to diesel for range, operating costs and performance. We are currently devising our plan for penetrating the South American market.

When we ended 2005 and entered 2006 we recognized the need to secure additional, reliable and lower cost raw material. Our growth plan is substantial for 2006.

We need to ensure we have uninterrupted supplies at reasonable prices to meet our customer demands, especially the growth we are seeing in our European operations. Today we have located additional supplies and are currently qualifying these products for use in the latter part of 2006.

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OUTLOOK

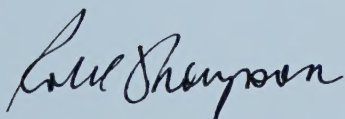
The Company has remained committed to its strategic plan over the last five years. We have grown our CNG revenue stream globally through our own product developments and marketing initiatives, created access to new significant revenue opportunities for moving compressed gases through our bulk hauling and storage solution, and maintained our technological leadership in compressed hydrogen storage with OEM's around the world. This global positioning and growth strategy will continue. Our rapid growth in revenue was once again recognized for the second consecutive year in October of 2005 by Deloitte 2005 Technology Fast 50 as one of the top 50 fastest growing technology companies in Canada. We are proud of this accomplishment and the recognition given for continuing to realize our strategy.

The Company will continue to expand globally by evaluating potential CNG rich locations, creating new long term sustainable revenue streams and carrying out research and development projects for near and long term revenue generation. We will carefully consider how best to finance all opportunities. The one criterion foremost in mind will be the cost of the investment compared to near-term revenue generation and time to profitability. If the Company can negotiate additional suppliers of key commodity inputs for our products and maintain raw material quality with reduced pricing and find strategic partners with customer reach and local manufacturing expertise, we believe the cost of the investment can be minimized and better controlled towards our given financial goals.

A WORD OF THANKS

I would like to thank our shareholders and each of our employees for making 2005 another successful year. I would also like to extend my thanks to our customers, suppliers, and partners for their support of Dynetek for our gaseous fuel storage systems. In addition, I would like to acknowledge our Board of Directors for their unfailing sense of responsibility, guidance and support, which made for an outstanding contribution to our successful growth.

On behalf of Dynetek's management team and Board of Directors, respectively,



Robb D. Thompson | President and CEO
March 20, 2006



PRODUCTS & PARTNERS

PRODUCTS & PARTNERS

The core technology of Dynetek fuel systems is the DyneCell® cylinder which is one of the fastest filling cylinder on the market. The DyneCell lightweight composite cylinder is built from a seamless 'thin wall' aluminum liner with a full carbon fibre overwrap. This ultra-lightweight liner technology guarantees higher storage capacity making the DyneCell technology the clear winner in the race to reduce overall storage weight.

Dynetek's expertise is in offering practical and innovative solutions for lightweight fuel storage systems to store compressed gases, the majority of which are for compressed natural gas for low emission CNG vehicles and compressed hydrogen for zero emission fuel cell and internal combustion engine vehicles:

◆ Compressed Natural Gas:

We manufacture CNG fuel storage systems for passenger automobiles, light and heavy duty trucks, and public transit and school buses.

◆ Compressed Hydrogen:

We work with many of the world's largest OEMs to design, develop and manufacture leading-edge storage capabilities for fuel cell and internal combustion engines. We provide cost-effective solutions for automobiles, buses, stationary storage and bulk hauling applications.

◆ Industrial Gases:

Our technology lends itself to the storage of many compressed gases. We have created solutions with commercial, military and industrial applications.

◆ Fueling Systems:

We provide flexibility in each system we design and manufacture depending on our customer needs. We provide a variety of configurations depending on size envelopes and storage requirements. Systems can be mounted on the vehicle roof, behind the cab or on the side of the vehicle.

◆ Bulk Transportation:

We design and manufacture a lightweight Bulk Transportation (BT) System for transport of CNG, compressed hydrogen, and other compressed industrial gases. In remote or inaccessible locations, these systems act as instant mobile pipelines or refueling solutions.

◆ Stationary Storage:

Dynetek designs and manufactures stationary storage, or ground storage, for a wide range of refueling and testing applications. We enable customers to increase volumes housed by storing compressed gases at high pressure and then allowing them to dispense this gas at either high or low pressures.

Our strategic partners are world class leaders in their industries. We work closely with our partners to understand their requirements and then deliver products and solutions to meet their needs. Dynetek will continue to expand its strategic partners, customer base and product portfolio to ensure we continue our technological leadership position in the CNG and compressed hydrogen storage market places. We will strive for unique and first to market solutions for our customers to allow them to go **beyond energy boundaries**.

Partners

Ford
Mitsubishi
JFE Containers
enviroMech Industries

Customers

Nissan
DaimlerChrysler
Hyundai
Ballard
Hydrogenics
Toyota
John Deere
Raytheon
Freightliner
Thomas Built Buses
Orion Bus
Millenium Bus
Neoman
MAN
Heuliez Bus
Iris Bus
Van Hool
Breda Menarinbus

PROSPECTS & GROWTH

Dynetek is a Canadian-based global alternative energy company on a mission – to grow value responsibly. To us, value matters. It's the compelling reason for our strategic transition from future revenue streams, such as hydrogen, to the more prospective revenue stream and expanding regions in the world using compressed natural gas. Although Dynetek has a vision and supports how the hydrogen economy will evolve and how hydrogen storage will be utilized in the near and long term, we have aligned our business in a commercially sustainable way with storage solutions for compressed gases currently being stored and transported on a global basis. These are the commercial storage opportunities that will take us to profitability, with hydrogen storage as a warrant on the future.

Establishing a global presence has always been a critical part of our business model. We knew from the beginning that the adoption of our storage technology would vary considerably around the world. Certain regions were poised to take advantage of the benefits of our products and technology. By focusing on areas of key competitive advantage we sharpened our strategic focus on compressed natural gas opportunities where Dynetek has a clear advantage. Our advantage resides in our lightweight, thin walled seamless aluminum liner where we can apply our creativity on system designs, core competencies on compressed gas storage and high volume manufacturing capabilities. We have proven the use of our technology not only leads to environmental benefits, but it also provides economical gains through reduced operating costs for the end user compared to the use of much heavier steel and steel wrapped cylinders.

Our advantage has been borne out in the European market place. We entered the market place as a direct competitor to the more mature industry suppliers of storage solutions. In three years we have transformed a newly established manufacturing business to be the market leader in CNG storage solutions for bus manufacturers. Just three years ago our European operations accounted for 20% of our revenue. Exiting 2005 it now represents 54%, an increase of 170% over this period. We are committed to replicating this same result. Many regions of the world have an abundance of natural gas and no local solution. We are the solution. We are committed to other regions to create a "second" Europe for Dynetek. The success we have seen in South America and South East Asia as early adopters of our CNG storage will prove out this strategy.

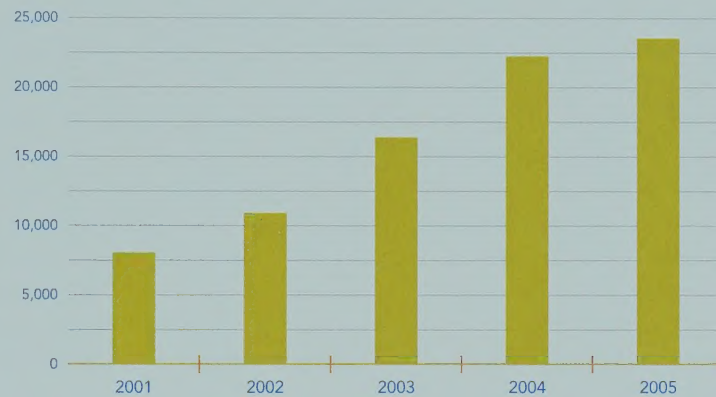
Our first priority is to manage our business on a commercially sustainable basis. We understand that a successful business is built on profit and an acceptable return to shareholders. In 2005, we moved closer to this goal with eight straight quarters of positive cash flow for operations. We are confident we are on track, through commercial sustainability and revenue growth, to financially achieve our goal. In September Dynetek was included, for the second year running, in the Deloitte 2005 Canadian Technology Fast 50 list as one of the fastest growing Canadian technology companies, based on a percentage revenue growth over a five-year period.

Notwithstanding our revenue growth for compressed natural gas. We are industry leaders for hydrogen storage. We believe hydrogen is the fuel of the future. Our reputation for providing unique, robust, reliable and commercially available storage solutions to the majority of the automotive OEMs is testament to our leadership position. We are committed to hydrogen and the future it brings. Our relationships with important OEMs, such as Ford, DaimlerChrysler, Hyundai and Nissan, plus customers such as Hydrogenics and Ballard provide us the benefits of their substantial technical expertise plus a rapid road to different segments of the hydrogen-based market. We will continue to meet industry standards set by the numerous regulatory bodies and industry partners, including but not limited to, Transport Canada, Department of Transportation (DOT), the National Fire Prevention Association, TUV, ISO, European Integrated Hydrogen Project (EIHP), KHK – Japan, CSA B51 and NGV2.

FINANCIAL PROGRESSION

When a Company focuses on value, long-term strategies take precedence over short-term thinking and project returns win over simple production growth. To us, creating value is ensuring maximum return for every dollar we invest.

CYLINDER AND SYSTEM SALES



EBITDA



EBITDA - earnings before interest, taxes, stock based compensation, non-cash foreign exchange, depreciation and amortization

CASH FLOW FROM OPERATIONS



Cash flow from operations is net loss adjusted for non cash items and changes in working capital



MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

The following sets out management's discussion and analysis of our financial position and results of operations for the years ended December 31, 2005 and 2004 and is based on information available as at March 13, 2006. All financial information is presented in Canadian dollars. Our consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report and the following discussion and analysis of financial condition and results of operations contains forward-looking statements and should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2005 and 2004. Forward-looking statements are based upon current assumptions, expectations and estimates that involve numerous risks and uncertainties and actual results could differ materially from those discussed in the forward-looking statements. Readers are encouraged to review the section in the Management's Discussion and Analysis titled 'Principal Risks and Uncertainties' for a discussion of factors that could affect Dynetek's future operations and financial results. Forward-looking statements are based upon management's assumptions, expectations and estimates at the time the statements are made. Dynetek does not update forward-looking statements should circumstances or management's assumptions, expectations or estimates change.

BUSINESS SUMMARY

Dynetek Industries Ltd. ('the Company') is a leading international company engaged in the design, production and marketing of Advanced Lightweight Fuel Storage Systems™, including lightweight storage cylinders and high pressure components including valves and regulators. The key component of the storage system is the DyneCell® cylinder, capable of storing high pressure gases including compressed natural gas (CNG), hydrogen, and various industrial gases. Dynetek's DyneCell cylinder and fuel storage system applications include, but are not limited to: the transportation industry, including passenger automobiles, light and heavy-duty trucks, transit and school buses; the bulk hauling of compressed gases; and stationary storage or ground storage refueling applications.

The current growth market for our compressed gas fuel systems for alternative fuel applications is the expanding global market for passenger and fleet vehicles powered by internal combustion engines using CNG. Based on the size and growth rate of the market for alternative fuel vehicles, we have initially focused our marketing efforts in Japan, Europe, South and North America. We also continue to pursue the industrial compressed gas market for bulk hauling applications. We are currently targeting the Australian and South American markets with our large bulk hauling trailer applications. To achieve success and to ensure significant penetration of this market, our trailers have received both Transport Canada and United States Department of Transportation certification.

We believe that the market for our compressed hydrogen enabling technologies will continue to develop over the next 5 to 10 years in conjunction with nearer term hydrogen industry energy applications and longer term expectation of the commercialization of hydrogen fuel cells and internal combustion engine vehicles. We plan to continue the development of our enabling technologies to meet this market opportunity. We plan to focus our marketing efforts in North America, South East Asia, Japan and Europe where the majority of our OEM and other hydrogen related technology partners are today.

Our products and services consist primarily of fuel storage, fuel delivery and system integration for alternative compressed gas vehicles, fuel cell applications and hydrogen refueling trailers and stationary storage products. We offer the following products and services to enable the development and commercialization of these systems:

- ◆ **Fuel storage** – advanced thin-walled lightweight storage cylinders that provide cost effective storage for CNG, compressed hydrogen and other industrial compressed gases, such as oxygen and helium.
- ◆ **Fuel delivery** – pressure regulators, valves and other components designed to control the pressure and flow of compressed gas; and
- ◆ **System integration** – services to design and integrate complete fuel storage systems to meet OEM requirements.

YEAR IN REVIEW

January

- ◆ Dynetek received a significant CNG system order from a major bus manufacturer in Europe. These systems were delivered during the first six months of 2005, and represented revenue of approximately \$1.3 million (CDN).
- ◆ Dynetek supplied on-board hydrogen fuel storage systems for Ford's new hydrogen powered V-10, E-450 shuttle bus. The shuttle bus was demonstrated at the 2005 North America International Auto Show in Detroit. Dynetek provided its certified 350bar (5000psi) storage solution for these hydrogen fueled internal combustion engines. Ford is currently marketing to potential fleet customers and is poised for the first commercial deliveries in 2006.

February

- ◆ Dynetek delivered its newly developed 700bar (10000psi) high-pressure hydrogen storage system to Nissan Motor Co. Ltd. The advanced on-board 700bar hydrogen storage cylinder increases hydrogen storage capacity by approximately 70% when compared with the previous 350bar (5000psi) hydrogen storage cylinder with the same internal storage dimensions.
- ◆ Dynetek also supplied its certified 350bar (5000psi) hydrogen storage system to Hydrogenics Corporation for its fuel cell-powered forklift project. Two fuel cell-powered forklifts are currently being trial tested at General Motors of Canada Limited's car plant in Oshawa.

June

- ◆ Dynetek was named by PROFIT: Your Guide to Business Success, as one of the companies in the 17th annual PROFIT 100 ranking of Canada's Fastest-Growing Companies.
- ◆ Appointed Mr. William Kenneth Kovalchuk, the President of Claret Asset Management to the Board of Directors of Dynetek.

September

- ◆ Dynetek was named one of Canada's Fastest growing technology company's in 2005 Deloitte Canadian Technology Fast 50 Program.

October

- ◆ Dynetek received significant compressed natural gas cylinder orders from major bus manufacturers with deliveries for the United States. These cylinders were delivered before the end of 2005, and represented revenue of approximately \$2.0 million (US).
- ◆ Dynetek delivered three hydrogen storage systems to Tsinghua University located in Beijing, the People's Republic of China in response to clean air initiative for the 2008 Summer Olympic Games.
- ◆ Dynetek announced its participation in the Integrated Waste Hydrogen Utilization Project (IWHUP) a Government of Canada and Sustainable Development Technology Canada (SDTC) funded project in Vancouver BC. This Hydrogen Early Adopters (h2ES) program and the SDTC contributions are part of an \$18.3 million hydrogen and hydrogen compatible technologies demonstration project.

November

- ◆ Dynetek received a contract to supply bulk transportation modules to John Thompson Engineering PTY Ltd., a division of Burns and Roe Worley, located in Sydney, Australia. Dynetek's BT modules will be used to transport compressed natural gas (CNG) to a power plant located in Western Australia. The \$4.6 million (CDN) order is scheduled for delivery in the first half of 2006.

December

- ◆ Dynetek delivered two 350bar (5000psi) Hydrogen Fuel Storage Systems to TUG Technologies to be used in tow tractors at the Orlando International Airport.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(thousands of Canadian dollars, except share capital and per share data)

December 31

	2005	2004	2003
Revenue			
Cylinder and system sales	23,521	22,214	16,348
Research and development income	2,841	4,249	4,044
Investment and other income	397	128	441
	26,759	26,591	20,833
Net loss	(2,445)	(1,239)	(4,888)
Net loss per common share (basic and fully diluted)	(0.12)	(0.06)	(0.24)
EBITDA ¹	1,171	1,187	(1,896)
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Capital expenditures	1,588	1,737	3,376
Cash and cash equivalents	2,809	4,139	9,831
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Total assets	44,211	45,767	45,407
Long-term debt	1,341	1,667	1,753
Common shares outstanding	20,939,701	20,547,232	20,120,395
Weighted average common shares outstanding	20,793,601	20,248,579	20,120,395

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² Non-cash working capital is current assets after cash less current liabilities.

The Company's strategic thrust continues to be the focus on the CNG market place where opportunities to support revenue growth are nearer term. In Europe the Company showed a 32% increase in CNG cylinders and system sales from one year ago. In California sales dropped almost 32% from 2004 reflecting the Company's strategic decision to forgo sales due to our inability to pass on raw material price increases to our customers in a very price sensitive market related to unsettled emission requirements. In addition, the European customers of the Company's European operations had fewer delivery acceptance days for the month of December 2005 compared to December 2004, resulting in product being shipped to these customers in January 2006 instead of December 2005.

During 2005 Dynetek continued to sell its products to the automotive, refuse truck and transit bus market in both CNG and hydrogen alternative fuel markets. For the years from 2003 to 2004 and again from 2004 to 2005 Dynetek has increased the number of complete fueling systems sold in the areas of transit buses (both hydrogen and CNG), refuse truck (CNG) and automotive applications (both hydrogen and CNG). Through successful sales efforts the Company broadened its customer base by selling into the industrial gas and the stationary storage markets.

RESULTS OF OPERATIONS

REVENUES	2005	% of	2004	% of
<i>(thousands of Canadian dollars)</i>	\$	revenues	\$	revenues
Cylinder and system sales	23,521	88%	22,214	84%
Research and development income	2,841	11%	4,249	16%
Investment and other income	397	1%	128	-%
	26,759	100%	26,591	100%

Cylinder and system sales for the year ended December 31, 2005 were \$23.5 million, up 6% from \$22.2 million for 2004. Dynetek's Canadian operation invoices the majority of its revenue in US dollars and Dynetek Europe GmbH ("Dynetek Europe") invoices in Euros. The US dollar exchange rate averaged \$1.21 compared to the Canadian dollar during 2005 at \$1.30 for 2004 with a low point in December 31, 2005 of \$1.17. Had the Canadian dollar to US dollar exchange rate achieved the levels of 2004 in 2005, revenues would have been \$1.1 million higher. The Euro exchange rate averaged \$1.51 compared to the Canadian dollar during 2005 compared to \$1.62 for 2004 with a low point at December 31 of 2005 of \$1.38. Had the Canadian dollar to Euro exchange rate achieved the levels of 2004 in 2005, revenues would have been \$1.1 million higher. During 2005, a selection of customers who purchased the DyneCell fuel storage systems for CNG were: Orion Bus (United States), Millennium Bus (United States), Marubeni Metals Corp. (Japan), Elgin Sweeper Company (United States), Thomas Built Buses (United States), NEOMAN (Europe), Heuliez Bus (Europe), BredaMenarinibus (Europe), Irisbus Italia S.p.A.(Europe) and Carmenita Truck Centre (United States). A selection of customers who purchased hydrogen and other compressed gas fuel storage systems were: Daimler Chrysler (Germany), Ford Motor Company (United States), Tsinghau University (China), Nissan (Japan), Toyota (Japan), Hyundai (Korea), Hydrogenics (Canada) and Ballard Power (Canada).

Cylinder and systems sales for 2006 are expected to increase at rates comparable to 2005 provided that Dynetek is able to continue to penetrate the CNG markets in Japan, Europe, Australia and North and South America.

Research and development income for the year ended December 31, 2005 was \$2.8 million, down 33% or \$1.4 million from 2004. During 2005, Dynetek continued to be involved with Natural Resources Canada (NRCan) and 9 different OEMs, including Ford, Hyundai, DaimlerChrysler and Nissan, to design, manufacture and deliver hydrogen storage solutions on 12 different confidential development programs. Revenues received from the Original Equipment Manufacturers (OEMs) regarding these projects are recorded on billing milestones outlined in the contracts and, therefore, timing differences occur between when costs are incurred and funding is received. Non-repayable funding received from NRCan is recorded as revenue in the period it is invoiced. The repayable funding received from NRCan is recorded as a loan.

Research and development income is dependent on OEM and government cost shared monies. It is difficult to predict the timing and demand of these customers and therefore research and development income can vary significantly from year to year. However, the Company believes that additional cost shared monies will continue to be available from governments and OEMs for future research and development projects.

Investment and other income for the year ended December 31, 2005 was \$0.4 million, compared to \$0.1 million in 2004. The increase in investment and other income is due to certain conditions being met constituting settlement of Natural Resources Canada long-term debt of \$0.3 million.

Investment income is dependent on the amount of cash Dynetek has to invest. Dynetek only invests in triple A rated securities and therefore earns interest at these associated rates.

COSTS OF GOODS SOLD AND CONTRIBUTION MARGIN

(thousands of Canadian dollars)

	2005	2004
Cost of goods sold	17,648	16,521
Contribution margin	5,873	5,693
Percentage of sales	25%	26%

Cost of goods sold was \$17.6 million for the year ended December 31, 2005 compared to \$16.5 million for the same period in 2004. Corresponding contribution margins for 2005 were \$5.9 million, or 25% of sales compared to \$5.7 million or 26% of sales in 2004.

Cost of sales comprises materials, direct labour costs and benefits, and indirect labour costs and overhead associated with the production.

The decrease in contribution margin percentages was attributed to increases in carbon fibre pricing and Dynetek's inability to pass these increases on to customers.

The Company's actual contribution margins in future years as a percentage of sales will be influenced by the cylinder product mix, raw material pricing, the competitive nature of the market place and number of complete system sales. The Company's goal for contribution margins in 2006 is to be in the range of 25-27%.

GENERAL AND ADMINISTRATIVE

(thousands of Canadian dollars)

	2005	2004
General and administrative expense	3,464	3,347

General and administrative expense was \$3.5 million in 2005 compared to \$3.3 million for 2004. General and administrative expense includes labour and benefits for corporate staff, professional fees, insurance, travel and statutory expenses associated with being a public company. The increase in general and administrative expense was mainly a result of increases in insurance and audit fees. Overall general and administration costs were maintained as a percentage of revenue at 13% in 2005 and 2004.

In 2006 the Company anticipates that general and administrative expenses should continue to decrease as an overall percentage of revenue.

RESEARCH AND DEVELOPMENT

(thousands of Canadian dollars)

	2005	2004
Research and development expense	2,773	3,570

Research and development expense was \$2.8 million in 2005 compared to \$3.6 million in 2004. Research and development expense consists of materials, labour and costs of benefits and the overhead related to research and development activity.

The majority of Dynetek's research and development programs are co-funded with major OEMs and government grants (NRCan). Dynetek receives subsidies from the OEMs regarding projects based on completion of the project and therefore timing differences can occur between when costs are incurred and funding is received. The funding from the OEMs is recorded as research and development revenue. The non-repayable cost shared monies received from NRCan is recorded as revenue. The repayable NRCan funding is recorded as a loan.

Research and development expense is dependent on OEM projects and government funding. It is difficult to predict the timing and demand of these customers and therefore research and development expense can vary significantly from year to year. However, the Company believes that additional subsidies will continue to be available from governments and OEMs for future research and development projects.

MARKETING

(thousands of Canadian dollars)

	2005	2004
Marketing expense	1,703	1,966

Marketing expense was \$1.7 million in 2005 compared to \$2.0 million in 2004. Marketing expense relates to labour and benefits of sales personnel, travel, attendance at tradeshow, agents commissions and promotional collateral. Marketing expense decreased by \$0.3 million in 2005 due to a decrease in marketing personnel and a reduction in travel costs. Overall marketing expense continued to decrease as a percentage of sales to 7% in 2005 from 9% in 2004.

The trade shows Dynetek attended during 2005 included: Clean Cities Conference, Palm Spring, CA, ANOVA Conference, Kuala Lumpur, Malaysia, School Transport News, Reno, United States, APTA Expo, Dallas, United States, SWANA, Austin, Texas, League of California Cities, San Francisco, United States, GNV Expo, Rio De Janeiro, Brazil, CUTA, Vancouver, Canada and JFE Composite Show 2005, Paris, France.

In 2006 the Company anticipates that marketing expenses should continue to decrease as an overall percentage of sales. This decrease will result because of Dynetek's past efforts in establishing sales forces in both the Calgary and German offices which are supported by agents in strategic global markets to help develop key distribution channels for penetrating new and existing markets.

DEPRECIATION

(thousands of Canadian dollars)

	2005	2004
Depreciation expense	1,223	1,321

Depreciation expense was \$1.2 million in 2005, compared to \$1.3 million in 2004. Depreciation expense decreased in 2005 as a result of the declining balance method of accounting being used. Until assets are commissioned for use in the production process they are considered assets under construction and are not depreciated.

Depreciation should increase as our production volumes increase and the capital assets under construction not being depreciated are commissioned into the production line.

AMORTIZATION

<i>(thousands of Canadian dollars)</i>	2005	2004
Amortization	476	394

Amortization was \$0.5 million in 2005, which is compared to the \$0.4 million in 2004. Items included in amortization relate to certification costs, patents and deferred start-up costs. The increase is due to the increase in certification costs being amortized in 2005 compared to 2004.

FOREIGN EXCHANGE

<i>(thousands of Canadian dollars)</i>	2005	2004
Foreign exchange loss	983	261

Foreign exchange for the year ended December 31, 2005 was a loss of (\$1.0) million compared to a loss of (\$0.3) million in 2004. The Canadian operation invoices the majority of its revenue in US dollars and the European operation invoices in Euros. The Company reports its results in Canadian dollars but the revenues are generated in US dollars, Euros and Canadian dollars. The foreign exchange loss for the year ended December 31, 2005 is a result of a weakening of both the United States dollar and the Euro against the Canadian dollar resulting in a negative impact on the foreign denominated accounts receivable and cash when translating into Canadian dollars for financial reporting purposes. During the year the US dollar ranged from \$1.16 to \$1.25 against the Canadian dollar. The Euro ranged from 1.38 to 1.61 against the Canadian dollar. During 2005 the Company created natural hedges by matching cash, payables and receivables denominated in Euros and US dollars where possible.

At December 31, 2005 the Company had \$1.1 million in US dollars and \$0.7 million in Euros.

The Company plans to continue to mitigate its risk of foreign exchange fluctuations by converting all US dollar amounts into Canadian dollars in excess of required US dollar payables. In 2006 the Company implemented a foreign exchange risk management program to hedge the US dollar and Euro based working capital on a monthly basis against exchange rate fluctuations.

INCOME TAXES

<i>(thousands of Canadian dollars)</i>	2005	2004
Future income taxes	-	-
Large corporations tax	-	39
	-	39

Income taxes were nil in 2005 compared to \$39,000 in 2004. The expense associated with 2004 is attributable to federal large corporations tax, which is based on the taxable capital of the Company. The Company was not cash taxable for the years ended December 31, 2005 and 2004. Due to historical losses the Company has provided a valuation allowance in 2004 against non-capital loss carry-forwards of \$8.8 million in Canada and from the European operations \$2.9 million (EUR 2.1 million).

IMPAIRMENT OF OTHER ASSETS

(thousands of Canadian dollars)

	2005	2004
Impairment of other assets	535	-

Impairment of other assets for the year was \$0.5 million compared to nil in 2004. The amount represents amounts receivable from a customer for which the Company agreed to revise the terms of repayment. As of September 30, 2005 based on updated financial information provided by the customer, management believed the full amount of the receivable had been impaired and collection of the receivable was not likely to occur by June 30, 2006 or any time subsequent to that date. This impairment resulted in the one time charge of \$0.5 million being charged to the income statement.

The Company does not anticipate any of their other customers to have difficulties meeting their financial commitments.

NET LOSS

(thousands of Canadian dollars)

	2005	2004
Net loss	(2,445)	(1,239)

Net loss for the year ended December 31, 2005 was (\$2.4) million or (\$0.12) per common share compared to a loss of (\$1.2) million or (\$0.06) per share in 2004. The increase of the loss by \$1.2 million is substantially a result of an increase in the foreign exchange loss of \$0.7 million and the impairment of other assets of \$0.5 million compared to 2004.

VALVE DIVISION

The Valve Division is focused entirely on research and development activities. The Valve Division received \$0.3 million of non-repayable cost shared monies from NRCan in 2005.

Valve Division expenditures are included in the research and development expense. The Division currently has prototype valves and regulators in everyday driving environments being tested by third parties. These products are currently completing certification and are intended for commercial sale in the near future.

EUROPEAN OPERATIONS

Dynetek Europe GmbH ('Dynetek Germany') has progressed considerably since its inception in 2001. Dynetek Germany's cylinder sales increased to \$14.5 million in 2005 from \$10.6 million in 2004. Research and development revenue decreased to \$0.3 million from \$0.4 million in 2004. The majority of Dynetek Germany's sales took place in the last half of the year.

In 2006 Dynetek Europe GmbH is expected to increase cylinder and system sales by continuing to penetrate the CNG markets primarily in Europe.

SUMMARY OF QUATERLY RESULTS

The following tables show selected unaudited financial information for the past eight quarters ending December 31, 2005. The information has been obtained from our quarterly unaudited financial statements which have been prepared in accordance with Canadian GAAP and, in the opinion of management, have been prepared using accounting policies consistent with the annual audited financial statements and include all adjustments necessary for the fair presentation of the results of the interim periods. We expect our operating results to vary significantly from quarter to quarter and they should not be relied upon to predict future information.

2005 QUARTER ENDED (Unaudited)

(thousands of Canadian dollars – except per share amounts)

	Three months ended				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	YEAR ENDED
Revenues					
Cylinder and system sales	5,676	6,356	5,631	5,858	23,521
Research and development income	1,193	683	362	603	2,841
Investment and other income	57	11	12	317	397
	6,926	7,050	6,005	6,778	26,759
Operating expenses					
Cost of goods sold	4,175	4,796	4,139	4,538	17,648
Marketing and general and administrative	1,154	1,347	1,118	1,548	5,167
Research and product development	1,063	645	604	461	2,773
	6,392	6,788	5,861	6,547	25,588
Earnings before interest, income taxes, stock based compensation, non-cash foreign exchange, depreciation & amortization⁽¹⁾	534	262	144	231	1,171
Foreign exchange (gain) loss	241	127	357	258	983
Depreciation and amortization	373	411	449	466	1,699
Stock based compensation	95	99	100	105	399
Impairment of other assets	-	-	535	-	535
Income taxes	-	-	-	-	-
	709	637	1,441	829	3,616
Net loss	(175)	(375)	(1,297)	(598)	(2,445)
Earnings (loss) per share					
Basic and fully diluted	(0.01)	(0.02)	(0.06)	(0.03)	(0.12)

⁽¹⁾ Earnings before interest, taxes, stock based compensation, non-cash foreign exchange, depreciation and amortization (EBITDA) is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes EBITDA is a useful measure to assist in the assessment of Dynetek's ability to generate cash flows from its operations.

2004 QUARTER ENDED *(Unaudited)*

(thousands of Canadian dollars – except per share amounts)

	Three months ended				YEAR ENDED
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	
Revenues					
Cylinder and system sales	4,364	4,403	5,270	8,177	22,214
Research and development income	1,544	1,406	723	576	4,249
Investment and other income	71	18	10	29	128
	5,979	5,827	6,003	8,782	26,591
Operating expenses					
Cost of goods sold	3,261	3,277	3,893	6,090	16,521
Marketing and general and administrative	1,259	1,336	1,239	1,479	5,313
Research and product development	1,176	1,044	490	860	3,570
	5,696	5,657	5,622	8,429	25,404
Earnings before interest, income taxes, stock based compensation, non-cash foreign exchange, depreciation & amortization¹	283	170	381	353	1,187
Foreign exchange (gain) loss	1	(37)	226	71	261
Depreciation and amortization	422	416	430	447	1,715
Stock based compensation	92	87	88	144	411
Income taxes	13	15	7	4	39
	528	481	751	666	2,426
Net loss	(245)	(311)	(370)	(313)	(1,239)
Earnings (loss) per share					
Basic and fully diluted	(0.01)	(0.01)	(0.02)	(0.02)	(0.06)

¹ Earnings before interest, taxes, stock based compensation, non-cash foreign exchange, depreciation and amortization (EBITDA) is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes EBITDA is a useful measure to assist in the assessment of Dynetek's ability to generate cash flows from its operations.

FOURTH QUARTER RESULTS

Cylinder and system sales for the three months ended December 31, 2005 were \$5.9 million down from \$8.2 million or 28% for the same period in 2004. The reduced fourth quarter revenues reflects the Company's strategic decision to forgo CNG sales in California due to the inability to pass on raw material price increases to customers in a very price sensitive market related to unsettled emission requirements. In addition, the European customers of the Company's European operations had fewer delivery acceptance days for the month of December 2005 compared to December 2004, resulting in product being shipped to these customers in January 2006 instead of December 2005. **Research and development income** for the fourth quarter was \$0.6 million, comparable to the same period of 2004. **Investment and other income** in the fourth quarter of 2005 was \$0.3 million compared to 29 thousand dollars for the same period of 2004. The increase in the fourth quarter is due to certain terms being met constituting settlement of Natural Resources Canada long-term debt of \$0.3 million.

Cost of goods sold was \$4.5 million for the three months ended December 31, 2005 compared to \$6.1 million for the same period in 2004. Corresponding contribution margins for the three months ended December 31, 2005 were \$1.4 million or 24% of sales compared to \$2.1 million or 26% of sales for the same period of 2004. The decrease in contribution margin percentages was attributed to increased carbon fibre pricing and Dynetek's inability to pass these increases on to customers due to contracts which had been set up before the increase had occurred.

General and administrative expense was \$1.0 million for the three months ended December 31, 2005 compared to \$0.9 million for the same period of 2004. This \$0.1 million increase is due to the use of outside consultants by the European operations in the fourth quarter.

Research and product development expense was \$0.5 million for the quarter ended December 31, 2005 compared to \$0.9 million for the same period in 2004. This decrease is the result of fewer funded projects in the fourth quarter of 2005 compared to 2004.

Marketing expense was \$0.5 million for the quarter ended December 31, 2005, compared to \$0.6 million the fourth quarter of 2004. The reduced marketing expense fourth quarter of 2005 is due to a decrease in personnel costs and a reduction in travel costs.

Depreciation expense was \$0.3 million for the quarter ended December 31, 2005, which is comparable to the same period of 2004. **Amortization expense** was \$0.1 million for the quarter ended December 31, 2005, which is comparable to the amount in the same period of 2004.

Foreign exchange for the fourth quarter was a loss of (\$0.3) million compared to a loss of (\$0.1) million for the same period of 2004. The loss is due to a continuing weakening of the US dollar and the Euro against the Canadian dollar.

Net loss for the quarter ended December 31, 2005 was (\$0.6) million or (\$0.03) per common share compared to (\$0.3) million or (\$0.02) per common share for the same period of 2004.

INTANGIBLE ASSETS AND DEFERRED COSTS	2005	2004
Patents	191	64
Certification costs	1,137	730
	1,328	794

Intangible asset expenditures for the year ended 2005 were \$1.3 million compared to \$0.8 million in 2004. In 2005, Dynetek spent funds on registering new patents, maintaining existing patents and costs associated with new product certification.

The Company will invest additional resources to maintain and register patents and product certification in future years to ensure protection from competitors of our intellectual property, developed products and production processes. There are no future plans to acquire any intellectual property from third parties.

CAPITAL EXPENDITURES	2005	2004
Building and leaseholds	412	37
Manufacturing equipment	3,765	672
Office furniture and other equipment	43	125
Computer hardware and software	52	26
Manufacturing equipment under construction	(2,683)	877
	1,589	1,737

Capital expenditures for the year ended 2005 were \$1.6 million compared to \$1.7 million for 2004. During 2005, the Company deployed \$2.7 million of manufacturing equipment previously included in assets under construction into the production line. The majority of the expenditures incurred relate to expansion of production assets. The efficiencies and high production capabilities of the new manufacturing process will contribute directly to cost reductions and higher production output. With the additional infrastructure necessary to manage the Company, additions were made to the building, office furniture and computer hardware and software.

The Company's capital resource requirements consist of capital expenditures to maintain and improve the existing production line. In the future the Company's capital requirements are to complete the assets under construction with no other material additions planned.

OFF BALANCE SHEET FINANCING

The Company does not have any Off Balance Sheet Financing arrangements.

FINANCIAL RESOURCES AND LIQUIDITY

The Company's principal liquidity requirements relate to the increase in working capital required to maintain our increase in sales. The Company believes that the available working capital will be adequate to meet the liquidity needs for at least the next twelve months.

The Company's actual funding requirements and financing alternatives could vary depending on a number of factors, including the increase of the CNG system sales on a global basis, the progress of research and development projects and the development of additional relationships with strategic partners.

As at December 31, 2005 Dynetek had cash and cash equivalents of \$2.8 million, compared to \$4.1 million at December 31, 2004. Dynetek had cash flow from operations of \$2.0 million for the year ended December 31, 2005 compared to a cash flow deficiency of (\$3.3) million at December 31, 2004.

The Company's investment in inventory resulted in an increase of \$0.9 million to \$10.4 million at December 31, 2005 from December 31, 2004. Work-in-progress substantially represented by confirmed orders decreased by \$0.1 million to \$2.6 million. Raw material levels increased by \$0.1 million to \$3.1 million as a result of increased price of carbon fibre. Finished goods inventory increased by \$0.9 million to \$4.7 million from the December 31, 2004 levels.

At December 31, 2005 accounts receivable were \$6.5 million representing a reduction of \$1.9 million when compared to December 31, 2004. The Company manages the collection of receivables and the payment of payables in a manner that current working capital levels will continue to fund ongoing operations. Accounts payable at December 31, 2005 were \$5.1 million, compared to \$4.4 million as at December 31, 2004.

The long-term debt relates to repayable research and development funding supplied by NRCan. These agreements allow Dynetek to retain the intellectual property and to receive long-term funding. The debt is repayable only in the form of royalties based on specific related commercial product sales and is interest free. The Company has \$0.1 million to be repaid in 2005 and the first quarter of 2006. During 2005 the Company recorded a settlement of Natural Resources Canada long-term debt of \$0.3 million. These amounts have been reflected in the income statement as investment and other income.

The Company believes that additional cost shared monies will continue to be available from governments and OEMs for future research and development projects.

Dynetek continues to build on the strong strategic alliances with several major OEMs whereby confidential joint funding has been obtained to develop complete hydrogen fuel storage systems. Other research programs with strategic partners, such as government bodies, who provide financial and technical support, are also in place to explore other storage applications in the energy marketplace.

At December 31, 2005, the Company had an unused \$5.0 million line of credit facility with a major chartered bank.

TRANSACTIONS WITH RELATED PARTIES

For the year ended December 31, 2005, the Company purchased under normal terms and conditions \$5.5 million, (2004 - \$4.6 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

OUTSTANDING SHARE DATA

(thousands of Canadian dollars)

Issued and outstanding:

	Number of Shares	Amount
Balance at December 31, 2004	20,547,232	52,589
Warrants exercised	360,594	(225)
Options exercised	31,875	30
Reclassification of contributed surplus	-	38
Balance at December 31, 2005	20,939,701	52,432
	2005	2004
Securities convertible into common shares:		
Stock options	1,180,500	2,226,750
Warrants	1,174,294	2,069,294

Common shares and securities convertible into common shares as at March 31, 2006 were as follows: common shares outstanding 20,940,451, options of 1,195,500 and warrants of 1,174,294.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, inventories, fixed asset useful lives, stock-based compensation and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Accounts receivable are recorded as bad debts when they are deemed to be uncollectible. Management reviews specific information on each customer to determine whether collection is an issue.

The Company reviews its inventory for obsolescence and to ensure that the cost of inventory is not in excess of the estimated market value. Inventory reserves or write-down are recorded if required.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2004, under Canadian GAAP the Company is required to recognize a charge to the income statement based on an option-pricing model for all stock options that were granted and vested in the financial year, with a corresponding credit to additional paid in capital under the shareholders' equity section of the balance sheet. For periods prior to 2004, the prospective application requires a charge to opening retained earnings.

COMMITMENTS

As at December 31, 2005 the Company has a commitment in the form of a letter of guarantee of \$0.2 million with respect to a performance bond.

FINANCIAL INSTRUMENTS

(a) Fair values

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximates their fair values, due to the short terms to maturity of these instruments.

(b) Long-term debt

The fair value of long-term debt is undeterminable as it has no set terms of repayment and does not bear interest. Accordingly, it is not practical to estimate the fair value of these instruments.

(c) Concentration of credit risk

The Company is exposed to credit risk only with respect to uncertainty as to timing and amount of collectability of accounts receivable. All customers are subject to credit approval prior to acceptance of purchase order.

(d) Foreign currency risk

Foreign currency risk is the risk to the Company's results from operations that arises from fluctuations in foreign currency exchange rates. The Company conducts transactions in Canadian dollars, the US dollar and Euro. In 2005 approximately 38% of sales revenue was generated in US dollars and 62% in the Euros. The Company has not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations.

PRINCIPAL RISKS AND UNCERTAINTIES

Development of the Alternate Fuel Industry and Infrastructure: Our future performance depends upon the development of the alternate fuel industry and the establishment of the necessary infrastructure. While we believe that the alternate fuel industry will continue to develop and that the necessary infrastructure will be established, we cannot control if, when and how quickly this will happen. The failure or delay in the development of the alternate fuel industry and the establishment of the necessary infrastructure would have a material adverse effect on our operations and financial position.

Competition in the Fuel Storage Industry: The gaseous fuel storage industry is highly competitive. We depend upon our ability to develop, manufacture and sell our products in competition against our competitors. We endeavor to offer products that are more advanced and that are cost competitive with our competitors. We also market our products globally and we endeavor to establish strategic relationships with our principal customers. However, we are in competition with competitors who have greater resources and who may develop and introduce competing products that are more advanced and less expensive than our products.

Dependence upon Transportation OEMs: Our principal markets are currently automotive OEMs, heavy truck manufacturers and bus manufacturers. We depend upon their continuing development of alternate fuel vehicles and their continuing purchase of our products. We establish strategic relationships with our principal customers and we endeavour to identify new global markets for our products other than transportation OEMs. However, the failure or delay by the transportation OEMs to develop and produce alternate fuel vehicles, or their decision to purchase products from our competitors, would have a material adverse effect on our operations and financial position.

Technological Changes: There is significant and rapid technological change in the alternate fuel industry and in the gaseous fuel storage industry. We depend upon our ability to develop, manufacture and sell new products which meet such changes.

Government and Regulatory Changes: The development of the alternate fuel industry is driven in part by government laws and regulations concerning the environment, government initiatives concerning greenhouse gases and climate change, and government funding for the alternate fuel industry. Changes in such laws and regulations, initiatives and funding would have a material adverse effect on the alternate fuel industry, which in turn would have a material adverse effect on our operations and financial position.

Certification: Our products must be certified in the countries in which they are sold. Certification requirements are evolving and in some cases have not yet been established. While we believe that our products will meet these certification requirements, we cannot control if, when and how quickly this happens. The delay or failure to obtain certifications could have a material adverse effect on our operations and financial position.

Protection of Intellectual Property Rights: We depend upon the ownership and protection of our proprietary technology. We endeavor to protect our intellectual property rights through the registration of patents and the protection of trade secrets. However, the loss or unenforceability of any intellectual property rights could have a material adverse effect on our competitive position.

Dependence upon Suppliers: We depend upon certain key suppliers for the supply of key materials, components and services at competitive prices. We choose our key suppliers carefully and endeavor to enter into strategic alliances with them. However, the loss of any key supplier or pricing structure could have a material adverse effect on our costs, operations and financial position.

There was a worldwide shortage and significant price increases for carbon fibre during 2005. It is generally expected that there will continue to be a worldwide shortage and price increases for carbon fibre during 2006. We will attempt to manage this risk through our long-term strategic supply arrangement with Mitsubishi Rayon, who are also a significant shareholder of Dynetek and by entering into strategic supply arrangements with other carbon fibre suppliers.

Dependence upon Suppliers (con't): However, any shortage or delay in obtaining carbon fibre or any additional significant increases in price for carbon fibre could have a material adverse effect on our operations, costs, contribution margins and financial position.

Contribution Margins: We slightly decreased our gross contribution margin from 26% in 2004 to 25% in 2005. Our ability to continue to generate EBITDA and positive cash flow from operations depends upon our ability to maintain our contribution margins at these levels.

Dependence upon Key Personnel: We depend upon certain key management, operations and research and development personnel. We endeavor to obtain written employment agreements with such personnel containing confidentiality and non-competition provisions. However, the loss of any such personnel or the unenforceability of such confidentiality and non-competition provisions could have a material adverse effect on our operations, competitive position and financial position.

Credit Risks: We are exposed to credit risk for payments by customers for our products. We manage this risk by primarily dealing with large, credit worthy customers and governments and by obtaining credit approval before accepting a purchase order. However, a failure to pay by any significant customer could have a material adverse effect on our financial position.

Foreign Exchange: We are exposed to US Dollar to Canadian dollar exchange rate fluctuations, since a majority of our Canadian operation's accounts receivable are in US dollars. We endeavor to manage this risk by matching our US dollar balances to planned purchases in US dollars, and by keeping a minimum of the balance of our cash in US dollars. However, significant fluctuations in US dollar to Canadian dollar exchange rates have had and could continue to have a material adverse effect on our financial position.

We are also exposed to Euro to Canadian dollar exchange rate fluctuations, since a majority of our European operation's accounts receivable are in Euros. We endeavor to manage this risk by ensuring that our payables are denominated in Euros. However, significant fluctuations in Euro to Canadian dollar exchange rates have had and could continue to have a material adverse effect on our financial position.

In 2006 the Company also implemented a foreign exchange risk management program to hedge US dollar and Euro based working capital amounts on a monthly basis against exchange rate fluctuations.

Product Liability and Insurance: We carry insurance that we consider appropriate, considering the nature of risks and the costs of insurance. However, all such insurance is subject to deductibles and exclusions and is not always available for all risks or at affordable prices. An uninsured or excluded loss could have a material adverse effect on our financial position.

Research and Development: Dynetek's research and development programs are co-funded with major OEMs and government (NRCan). The funding from the OEMs for the research and development programs is recorded as research and development revenue based on billing milestones outlined in the contracts. This can result in timing differences between when costs are incurred and funding is received. The ability of Dynetek to generate EBITDA and positive cash flow from operations for any specific quarter may depend upon whether the research and development revenue exceeds costs incurred in the period.

Transfer Pricing: Dynetek has adopted transfer pricing practices for product transfers between its Canadian and European operations that it believes comply with transfer pricing rules and regulations of the applicable tax authorities. However, any challenge of such transfer pricing practices by tax authorities could have a material adverse effect on Dynetek's tax and financial position.

Length of Sales Cycle: Our current sales cycle is approximately 16 weeks from the signature of purchase order to the delivery of product to the customer. Any increase in such sales cycle due to delays in obtaining raw materials or components, manufacturing or shipping could have a material adverse effect on our operations, competitive position and financial position.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed under the CEO and CFO's supervision to provide reasonable assurance that material information relating to Dynetek or its subsidiaries is known to management in the period in which the annual filings are made. The Company's CEO and CFO periodically review the Company's disclosure controls and procedures for effectiveness and conducted an evaluation as at the end of the 2005 fiscal year. As of the end of the 2005 fiscal year the Company's CEO and CFO were satisfied with the effectiveness of the Company's disclosure controls and procedures.

OVERSIGHT ROLE OF AUDIT COMMITTEE

The Audit Committee reviews, with Management and the external auditor, the Company's quarterly MD&A and related consolidated financial statements and recommends them for approval by the Board of Directors. The external auditor periodically prepares a report for Management on internal control weaknesses noted, if any, identified during the course of the auditor's annual audit, which is reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Details of Dynetek's corporate governance are contained in the Company's Information Circular prepared for the Annual Meeting of the Shareholders to be held on May 11, 2006. Copies of the Information Circular are available from the Company on request and are mailed to shareholders of record along with the Annual Report.

SAFETY AND ENVIRONMENT

Dynetek employees' safety is of paramount concern in all facets of our operations and in all regions where we operate. The Company has developed and rigidly enforces formal safety policies and procedures. The Company's policy is to operate its business in a manner which maintains compliance with the relevant safety legislation, and preventive action is taken to satisfy ourselves that safety hazards do not exist. Dynetek uses environmentally friendly products that pose less of a safety risk or risk of pollution wherever possible.

VISION AND STRATEGY

As in prior years, the Company will focus on near term revenue opportunities on a global basis related to the compressed natural gas (CNG) market for heavy duty truck and bus applications and for bulk hauling of larger quantities of compressed gas. We will continue to target global market opportunities that are economically driven and with the strong potential for environmental benefit. The Company's prime focus is in areas with an abundance of natural gas, lack of storage technology and inadequate pipeline infrastructure to benefit from CNG, and opportunities where our lightweight cylinder and system solutions offer the value proposition our customers want that our competitors cannot meet. Although we will enter markets which offer government incentives to grow the alternative fuel market, we are careful to ensure the government commitments have long term capital resources and political support.

The Company remains committed to take advantage of current opportunities in the rapidly expanding international market for compressed natural gas (CNG) and other compressed gases, such as oxygen, nitrogen, air and helium, while continuing to advance our industry leading compressed hydrogen enabling storage technologies for the hydrogen economy.

The Company will continue to review and evaluate the benefits of Joint Ventures and merger and acquisition opportunities with our customers and other participants in the alternative fuel and OEM component supplier industries.

We will review their product offerings, combined market growth opportunities, profitability timelines, and management synergies so as to complete our internal valuation models. The Company will review all opportunities to ensure the best return for the Company and its stakeholders. To date no opportunities have successfully met all of our criteria. We continually survey and evaluate the benefits of strategic alliances. We focus these alliances on our marketing strategy to expand our distribution channels, customer requirements to meet their strategic plans, manufacturing efficiencies or on our development strategy to advance the state of our technology. To date we have entered into alliances to expand both our marketing and development initiatives.

The Company will continue to develop our hydrogen enabling storage technologies to assist in expediting the commercialization of the hydrogen economy. We will continue to apply our system integration and complete solution expertise in the OEM vehicle applications and with energy related companies in providing the refueling products such as our mobile refueling units, storage for stationary refueling units and hydrogen storage for bulk hauling trailers.

OUTLOOK

The Company has remained committed to its strategic plan over the last five years. We have grown our CNG revenue stream globally through our own product developments and marketing initiatives, created access to new significant revenue opportunities for moving compressed gases through our bulk hauling and storage solution, and maintained our technological leadership in compressed hydrogen storage with OEM's around the world. This global positioning and growth strategy will continue. Our rapid growth in revenue was once again recognized for the second consecutive year in October of 2005 by Deloitte 2005 Technology Fast 50 as one of the top 50 fastest growing technology companies in Canada. We are proud of this accomplishment and the recognition given for continuing to realize our strategy.

The Company will continue to expand globally by evaluating potential CNG rich locations, creating new long term sustainable revenue streams and carrying out research and development projects for near and long term revenue generation. We will carefully consider how best to finance all opportunities. The one criterion foremost in mind will be the cost of the investment compared to near-term revenue generation and time to profitability. If the Company can negotiate additional suppliers of key commodity inputs for our products and maintain raw material quality with reduced pricing and find strategic partners with customer reach and local manufacturing expertise, we believe the cost of the investment can be minimized and better controlled towards our given financial goals.

ADDITIONAL INFORMATION

Additional information relating to Dynetek is on SEDAR at www.sedar.com.



MANAGEMENT'S REPORT & AUDITORS' REPORT

MANAGEMENT'S REPORT

The management of Dynetek Industries Ltd. is responsible for the integrity of its reported financial data. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the relevant and reliable financial information is provided in a timely manner. Management is responsible for all information contained in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

External auditors, appointed by the shareholders, have examined the consolidated financial statements in accordance with generally accepted auditing standards in Canada and have provided an independent professional opinion.

The Board of Directors carries out its responsibility for the financial reporting and internal controls principally through its Audit Committee. The Audit Committee consists of three independent directors. This committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.



Heinz O. Portmann
Chairman of the Board
March 13, 2006



Robb D. Thompson
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders of Dynetek Industries Ltd.:

We have audited the consolidated balance sheets of Dynetek Industries Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.




Deloitte & Touche LLP
Calgary, Canada
March 13, 2006

DYNETEK INDUSTRIES LTD.
CONSOLIDATED BALANCE SHEETS
December 31

(thousands of Canadian dollars)

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	2,809	4,139
Accounts receivable	6,516	8,410
Inventory (note 2)	10,392	9,491
Prepays and other	719	615
	20,436	22,655
Other asset (note 3)	-	554
Intangible assets and deferred costs (note 4)	5,054	4,202
Capital assets (note 5)	16,216	15,851
Future income tax (note 7)	2,505	2,505
	44,211	45,767
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	5,145	4,387
Current portion of long-term debt (note 6)	137	109
	5,282	4,496
Long-term debt (note 6)	1,341	1,667
Shareholders' equity		
Share capital (note 8)	52,432	52,589
Contributed surplus (note 10)	2,182	1,596
Deficit	(17,026)	(14,581)
	37,588	39,604
	44,211	45,767

See accompanying notes to the consolidated financial statements.
 Approved by the Board of Directors



Michael J. Lang
 Director



Larry A. Wright
 Director

DYNETEK INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
Years Ended December 31

(thousands of Canadian dollars except per share capital and per share amounts)

	2005	2004
Revenue		
Sales	23,521	22,214
Research and development	2,841	4,249
Investment and other (note 6)	397	128
	26,759	26,591
Expenses		
Cost of goods sold	17,648	16,521
General and administrative	3,464	3,347
Research and product development	2,773	3,570
Marketing	1,703	1,966
Depreciation	1,223	1,321
Amortization	476	394
Foreign exchange loss	983	261
Stock based compensation (note 9)	399	411
Impairment of other assets (note 3)	535	-
	29,204	27,791
Loss before taxes	(2,445)	(1,200)
Provision for income taxes (note 7)		
Large corporations tax	-	39
	-	39
Net loss	(2,445)	(1,239)
Deficit, beginning of year	(14,581)	(13,297)
Conversion of share purchase warrants (note 8)	-	(45)
Deficit, end of year	(17,026)	(14,581)
Per share information		
Loss per share (basic and diluted) (note 1)	(0.12)	(0.06)
Weighted average number of common shares outstanding	20,793,601	20,248,579

See accompanying notes to the consolidated financial statements.

DYNETEK INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31

(thousands of Canadian dollars)

	2005	2004
Cash flows provided for by (used for) operating activities		
Net loss	(2,445)	(1,239)
Items not involving cash		
Depreciation	1,223	1,321
Amortization	476	394
Stock based compensation	399	411
Impairment of other assets (note 3)	535	-
Unrealized foreign exchange loss	597	255
	785	1,142
Changes in non-cash working capital		
Accounts receivable	1,894	(2,435)
Inventory	(901)	(2,915)
Prepaid expense	(104)	71
Accounts payable	758	979
Unrealized foreign exchange loss relating to non-cash working capital	(392)	(165)
	2,040	(3,323)
Investing Activities		
Other assets	-	43
Additions to intangible assets and deferred costs	(1,328)	(794)
Additions to capital assets	(1,588)	(1,737)
Unrealized foreign exchange loss (gain) relating to investing activities	19	(43)
	(2,897)	(2,531)
Financing Activities		
Cash received on exercise of options	30	294
Settlement of long-term debt (note 6)	(298)	-
Repayment, long-term debt	-	(85)
	(268)	209
Foreign exchange (loss) on cash held in foreign currency	(205)	(47)
Decrease in cash and cash equivalents	(1,330)	(5,692)
Cash and cash equivalents, beginning of year	4,139	9,831
Cash and cash equivalents, end of year	2,809	4,139

Interest income received during the year was \$0.1 million (2004 - \$0.1 million) and interest paid during the year was nil (2004 - nil). Income taxes paid during the year was nil (2004 - \$39,000).

See accompanying notes to consolidated financial statements.

DYNETEK INDUSTRIES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at and for the years ended December 31, 2005 and 2004

(tabular amounts in thousands of Canadian dollars, except where noted)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Description of business: Dynetek Industries Ltd. ("the Company" or "Dynetek") designs, manufactures and markets complete lightweight compressed gas fuel storage systems for alternative fuel technologies and industrial gas suppliers. The Company's principal customers are major creditworthy industrial companies and government agencies.

(b) Consolidation: The consolidated financial statements include the accounts of Dynetek and its wholly owned subsidiary Dynetek Europe GmbH.

(c) Use of estimates: The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. Actual results could differ from those estimates. Significant estimates made by the Company included allowances for potentially un-collectible accounts receivable, provisions for obsolete inventory, valuation allowances for future income tax assets, useful lives of capital assets and intangible assets, and the fair value of stock options granted.

(d) Cash and cash equivalents: Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

(e) Inventory: Inventories, which include materials, labour, and overhead, are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis.

(f) Intangible assets and deferred costs: Intangible assets are comprised of patents and certification costs. Patent costs are initially recorded at cost and are amortized on a straight-line basis over period of 17 years from the date of acquisition. Certification costs are costs associated with obtaining product certification and are amortized on a straight-line basis over five years. Deferred costs represent capitalized start-up costs and are amortized on a straight-line basis over five years, beginning in the first year of commercial operations. Intangible assets are tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to cover its carrying value.

(g) Capital assets: Capital assets are initially recorded at cost and are depreciated from the date of acquisition or, in respect of manufacturing equipment under construction, from the time an asset is completed and ready for commercial production. Depreciation is provided over the useful lives of the asset as follows:

Building	declining balance	4%
Manufacturing equipment	declining balance	15%
Office furniture and other equipment	declining balance	4% to 30%
Computer hardware	declining balance	30%
Computer software	declining balance	25%
Leaseholds	straight-line	5 years

DYNETEK INDUSTRIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)

As at and for the years ended December 31, 2005 and 2004

(tabular amounts in thousands of Canadian dollars, except where noted)

(h) Impairment of long-lived assets: The Company reviews long-lived assets such as property, plant and equipment, and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value of the undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized in the income statement for the difference.

(i) Research and development costs: Research and development costs are expensed as incurred.

(j) Future income taxes: The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using enacted or substantially enacted tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the differences between opening and ending balances of the future income tax assets and liabilities.

(k) Government assistance: Government assistance is received from Natural Resources Canada and is recorded as non-interest bearing long-term debt (see note 6).

(l) Revenue recognition: Cylinder and system revenue is recognized when finished goods are shipped and invoiced to the customer. Research and development revenue is generated by projects co-funded with the original equipment manufacturers (OEMs). This revenue is recognized when contractual deliverables are met. Timing differences can occur between when costs are incurred and when revenue is earned.

(m) Foreign currency: Monetary balances denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Transactions and non-monetary items are translated at exchange rates in effect on the dates of the transactions. Foreign exchange gains and losses are included in the results of operations.

The Company's foreign operation is integrated and is translated into Canadian dollars using the temporal method. Translation adjustments are reflected in the Statement of Operations and Deficit.

(n) Per common share amounts: Amounts per common share are based on the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, which assumes that any proceeds obtained on exercise of options would then be used to purchase common shares at the weighted average market price during the year. The weighted average number of common shares outstanding is then adjusted by the net change. Diluted net loss per common share, is not presented, as the effects of the outstanding items are not dilutive. The weighted average number of common shares outstanding at December 31, 2005 was 20,793,601 (2004 – 20,248,579). The number of common shares used in the dilution calculation in 2005 was 20,793,601 (2004 – 20,248,579).

(o) Stock option plan: The Company recognizes compensation expense in each reporting period based on the fair value of the stock options granted during that period, amortized over the stock options vesting period. The Company determines the fair value of each stock option grant using the Black-Scholes option pricing model.

(p) Comparative figures: Certain comparative figures have been reclassified to conform to the basis of presentation in the current period.

DYNETEK INDUSTRIES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)
As at and for the years ended December 31, 2005 and 2004

(tabular amounts in thousands of Canadian dollars, except where noted)

2. INVENTORY

	2005	2004
Raw materials	3,105	3,007
Work-in-progress	2,633	2,699
Finished goods	4,654	3,785
	10,392	9,491

3. OTHER ASSET

Other long-term assets represented amounts receivable from a customer for which the Company agreed to revise the terms of repayment. The revised terms of repayment provided for the receivable to be repaid in full on or before June 30, 2006, with interest accruing at a rate of 3%. As at September 30, 2005 based on updated financial information provided by the customer, management believed the full amount of the receivable had been impaired and collection of the receivable was not likely to occur by June 30, 2006 or any time subsequent to that date.

4. INTANGIBLE ASSETS AND DEFERRED COSTS

	COST	ACCUMULATED AMORTIZATION	2005 NET BOOK VALUE	COST	ACCUMULATED AMORTIZATION	2004 NET BOOK VALUE
Patents	3,052	555	2,497	2,861	379	2,482
Certification costs	1,867	73	1,794	730	-	730
Deferred costs	1,443	680	763	1,443	453	990
	6,362	1,308	5,054	5,034	832	4,202

DYNETEK INDUSTRIES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)
As at and for the years ended December 31, 2005 and 2004
(tabular amounts in thousands of Canadian dollars, except where noted)
5. CAPITAL ASSETS

	2005			2004		
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Land	514	-	514	514	-	514
Building and leaseholds	3,828	923	2,905	3,416	767	2,649
Manufacturing equipment	12,151	4,913	7,238	8,387	3,973	4,414
Office furniture and other equipment	786	432	354	743	358	385
Computer hardware and software	694	378	316	642	325	317
Manufacturing equipment under construction	4,889	-	4,889	7,572	-	7,572
	22,862	6,646	16,216	21,274	5,423	15,851

Manufacturing equipment under construction represents capital expenditures associated with asset construction prior to being commissioned into the production line. When assets are used in production they are depreciated.

6. LONG-TERM DEBT

	2005	2004
Loans, unsecured, non-interest bearing, repayment based on 3% to 5% of product related sales, payable in the following fiscal period	1,478	1,776
Less: current portion of long-term debt	(137)	(109)
	1,341	1,667

The repayment of unsecured repayable loans beyond the current year is indeterminable. Amounts owing are based on future sales over a specified period of time. During 2005, certain conditions of the loan agreements were met constituting settlement of Natural Resource Canada long-term debt of \$0.3 million. These amounts have been reflected in the income statement as investment and other income.

During 2004, the Company negotiated a \$5.0 million line of credit with a major Canadian Chartered Bank, which is payable on demand and bears interest at the bank prime rate plus 1.25% per annum. The bank line is secured by an assignment of book debts, inventory and a collateral mortgage. No amounts were outstanding at December 31, 2005 or 2004.

DYNETEK INDUSTRIES LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)****As at and for the years ended December 31, 2005 and 2004***(tabular amounts in thousands of Canadian dollars, except where noted)***7. PROVISION FOR INCOME TAXES**

The provision for income taxes differs from the amount, which would be obtained by applying the expected Canadian income tax rate as follows:

	2005	2004
Loss before income taxes	(2,445)	(1,200)
Statutory income tax rate	33.62%	33.87%
Expected income tax recovery	(822)	(406)
Add (deduct):		
Substantively enacted tax rate reduction	(27)	(20)
Non-deductible stock based compensation	99	139
Non-capital losses not recognized	994	195
Other	(244)	92
Future income tax (benefit)	-	-
Large corporations tax	-	39
Income taxes	-	39

The components of the net future income tax asset at December 31, 2005 and 2004 are as follows:

	2005	2004
Research and development costs	1,129	678
Capital assets	1,705	2,563
Share issue costs	-	3
Non-capital losses	3,649	2,850
Cumulative eligible capital	(183)	(272)
Certification costs	(412)	(246)
Deferred costs	(223)	223
Valuation allowance	(3,160)	(3,294)
Future income tax asset	2,505	2,505

The Company has non-capital loss carry-forwards in Canada of \$8.8 million, expiring over a period from 2007 through 2010. The European operations has tax loss carry-forwards of \$2.9 million (EUR 2.1 million).

8. SHARE CAPITAL

- (a) **Authorized:** Unlimited common shares with no par value
Unlimited preferred non-voting shares, issuable in series, at no par value

DYNETEK INDUSTRIES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)
As at and for the years ended December 31, 2005 and 2004
(tabular amounts in thousands of Canadian dollars, except where noted)
(b) Issued and outstanding:

	Number of shares	Amount
Balance December 31, 2003	20,120,395	52,249
Warrants exercised (c)	166,087	45
Options exercised	260,750	295
Balance December 31, 2004	20,547,232	52,589
Warrants exercised (c)	360,594	(225)
Options exercised	31,875	30
Reclassification of contributed surplus	-	38
Balance December 31, 2005	20,939,701	52,432

(c) Warrants

On February 3, 2000, the Company issued 1,200,000 share purchase warrants which were exercisable into common shares of the Company at U.S. \$1.01 per share. On April 7, 2004, 305,000 share purchase warrants were exercised in a cashless conversion and 166,087 common shares were issued. On May 7, 2005, 885,000 share purchase warrants were exercised in a cashless conversion and 360,594 common shares were issued. The remaining 10,000 warrants expired on May 19, 2005.

On August 21, 2000, the Company issued warrants to Ford Motor Company to purchase 1,174,294 common shares. The warrants have an exercise price of \$3.68 per share and are vested one third immediately and thereafter in accordance with a formula based on revenue received by the Company. No warrants have been exercised to date. The warrants expire on the date which is the later of five years from the date of issuance and three years from the date such portion of the warrants become vested and provided that no expiration date shall be later than January 31, 2014.

9. STOCK BASED COMPENSATION

At December 31, 2005, 1,180,500 (2004 - 2,226,750) options to purchase common shares were outstanding. An additional 1,135,875 options may be granted in future years under this plan. Options vest ranging over three or four years, with no options vesting on date of issue. A summary of the Company's employee stock option plan activity is as follows:

	Number of Options	Weighted Average Price per share
Balance December 31, 2003	2,200,500	\$4.52
Options granted	412,000	\$2.18
Options exercised	(260,750)	\$1.10
Options cancelled	(125,000)	\$2.14
Balance December 31, 2004	2,226,750	\$4.62
Options granted	60,500	\$1.98
Options exercised	(31,875)	\$0.96
Options cancelled	(1,074,875)	\$7.07
Balance December 31, 2005	1,180,500	\$2.37

DYNETEK INDUSTRIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)

As at and for the years ended December 31, 2005 and 2004

(tabular amounts in thousands of Canadian dollars, except where noted)

The following table summarizes information about the options outstanding.

Date granted	Expiry Dates	Price per share	Number of shares	Available to Exercise
August 8, 2001	August 7, 2011	\$4.35	20,000	20,000
January 10, 2002	January 9, 2012	\$2.95	368,000	332,250
May 15, 2002	May 14, 2012	\$2.95	61,500	46,125
August 12, 2002	August 11, 2012	\$1.50	3,000	2,250
November 6, 2002	November 5, 2012	\$0.95	1,500	1,125
March 14, 2003	March 13, 2013	\$1.41	22,500	11,250
May 8, 2003	May 7, 2013	\$1.26	1,500	750
November 18, 2003	November 17, 2013	\$1.49	4,500	2,250
November 25, 2003	November 24, 2013	\$1.75	260,000	130,000
May 2, 2004	May 1, 2014	\$2.99	6,000	1,500
August 10, 2004	August 9, 2014	\$2.14	17,000	4,250
November 4, 2004	November 3, 2014	\$2.19	13,000	3,250
December 8, 2004	December 7, 2009	\$2.16	346,000	115,333
May 8, 2005	May 9, 2010	\$2.10	18,000	-
August 4, 2005	August 8, 2010	\$2.08	10,500	-
November 14, 2005	November 13, 2010	\$1.85	27,500	-

For the year ended December 31, 2005, 60,500 stock options were granted to employees and Directors in accordance with the terms of the employee stock option plan. Stock options are valued using the Black-Scholes option pricing model with the following assumptions:

	2005	2004
Weighted average risk-free interest rate	1.75	1.75
Weighted average expected life	5 years	5 years
Estimated volatility in the market		
price of the common shares	83	94
Dividend yield	0%	0%

The weighted average fair value per option is \$1.98 (2004 - \$2.18).

DYNETEK INDUSTRIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)

As at and for the years ended December 31, 2005 and 2004

(tabular amounts in thousands of Canadian dollars, except where noted)

10. CONTRIBUTED SURPLUS

The following table summarizes information about contributed surplus.

Balance January 1, 2004	-
Adjustment for change in accounting policy (January 1, 2004)	1,185
Stock-based compensation expense	411
Balance December 31, 2004	1,596
Stock-based compensation expense	399
Reclassification of contributed surplus for options exercised during the year	(38)
Warrants exercised	225
Balance December 31, 2005	2,182

11. COMMITMENTS

As at December 31, 2005 the Company has a commitment in the form of a letter of guarantee of \$0.2 million with respect to a performance bond.

12. FINANCIAL INSTRUMENTS

(a) Fair values

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values due to the short term to maturity of these instruments.

(b) Long-term debt

The fair value of long-term debt is undeterminable as it has no set terms of repayment and does not bear interest. Accordingly, it is not practical to estimate the fair value of these instruments.

(c) Concentration of credit risk

The Company is exposed to credit risk as it grants unsecured credit to its customers. All customers are subject to credit approval prior to acceptance of purchase order.

(d) Foreign currency risk

The Company is exposed foreign currency risk arising from operations and sales outside of Canada. A significant portion of the Company's revenues and expenses are denominated in United States dollars and Euros. The Company has not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations.

DYNETEK INDUSTRIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (con't)

As at and for the years ended December 31, 2005 and 2004

(tabular amounts in thousands of Canadian dollars, except where noted)

13. SEGMENTED INFORMATION

The Company currently operates in one operating segment, which involves the manufacture and sale of lightweight fuel storage systems. The majority of the Company's operations and assets relating to commercial production were located in Canada at December 31, 2005. Revenues attributed to foreign countries are based on the location of the customer.

	2005	2004
Revenue:		
Canada	745	1,883
United States	6,198	6,376
Japan	1,191	986
European Union	13,685	11,936
Other	1,702	1,033
	23,521	22,214

14. RELATED PARTY TRANSACTION

For the year ended December 31, 2005, the Company purchased under normal terms and conditions \$5.5 million, (2004 - \$4.6 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

BOARD OF DIRECTORS

Heinz O. Portmann

Chairman of the Board
Dynetek Industries Ltd.
Calgary, Alberta

Andrew T.B. Stuart†

Chairman
Sustainability Shift Inc
Toronto, Ontario

Peter A. Leust†

Director
Starlaw Holdings Ltd.
Montreal, Quebec

Michael J. Lang*†

Chairman
Stonebridge Merchant Capital Corp.
Calgary, Alberta

Larry A. Wright*✓

Executive Vice President
Multimatic Inc.
Markham, Ontario

William K. Kovalchuk*

President
Claret Asset Management Corp.
Montreal, Quebec

Robb D. Thompson

President and Chief Executive Officer
Dynetek Industries Ltd.
Calgary, Alberta

* Audit Committee member

† Compensation Committee member

✓ Corporate Governance Committee member

OFFICERS AND MANAGEMENT

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Chairman of the Board

Robb D. Thompson

President and Chief Executive Officer

Michael D. Portmann

Vice President and General Manager

Ulrich Imhof

Vice President, Engineering

Dr. Christian Rasche

Executive Director
Dynetek Europe GmbH

Karen Y. Minton

Vice President, Finance
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Norman E. Hall

Corporate Secretary

CORPORATE HEAD OFFICE

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AND REGISTRAR**CIBC Mellon Trust Company**

with offices in Toronto,
Montreal and Calgary.

STOCK LISTING

Toronto Stock Exchange

Trading Symbol: **DNK**

INVESTOR RELATIONS

To obtain additional information
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